

# 2004-2005 Proposed Budget

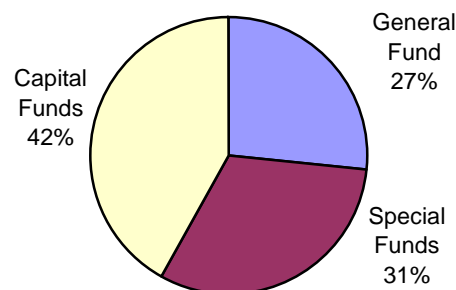
## BUDGET IN BRIEF

### *Proposed Financial Plan*

The 2004-2005 Proposed Operating and Capital Budgets for the City of San José total \$2.4 billion and represent the City Manager's proposed financial plan for the upcoming year. The Mayor and City Council, who are responsible for adopting the final budget for the City of San José, will be holding a series of City Council Budget Study Sessions during May to thoroughly analyze the many proposals set forth in this budget and to solicit input from the community. In June, the Mayor and City Council will adopt the final budget, incorporating any changes resulting from that review.

Like most organizations in Silicon Valley, the City of San José has been facing significant financial challenges as a result of the continuing steep economic decline that began in early 2001. The administration approached this year's budget process with the intent to bring the City's budget into balance while continuing to preserve essential City services. The structural problem facing the City is clear. With shrinking revenues, there is not enough money to continue the same level of services in all areas. The Proposed Budget recognizes City Council priorities and focuses resources on essential services, meeting basic infrastructure requirements, and maintaining the City Council's commitment to neighborhoods.

### 2004-2005 Proposed Budget



**General Fund:** used for regular operating expenditures, such as public safety, parks, and libraries.

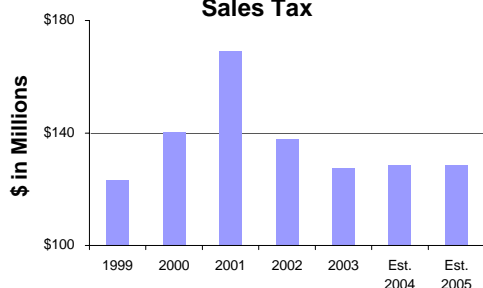
**Special Purpose Funds:** used for operations that receive direct funding, which can only be used for a specific purpose, such as the Airport.

**Capital Funds:** used for infrastructure improvements, including transportation, sewer, public safety, airport, parks, and library projects.

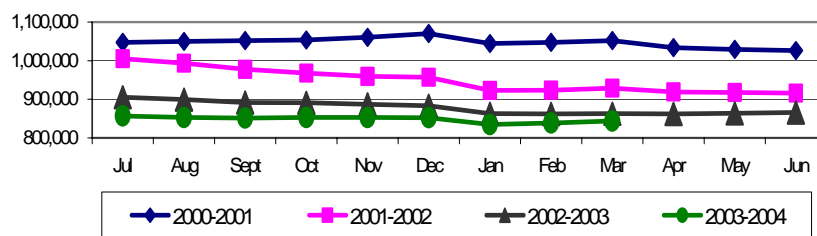
### *Economic Outlook*

The regional economic decline that began in early 2001 has persevered longer and with greater severity than the best economic experts predicted. This downturn has significantly impacted many of the economically sensitive revenues that support City services. General Sales Tax receipts, the largest revenue source in the General Fund, dropped for ten consecutive quarters and just recently ended that dubious streak by registering anemic growth of less than 1% in the last quarter. In both 2003-2004 and 2004-2005, Sales Tax receipts are expected to total approximately \$128 million, far below the peak of \$169 million in 2000-2001. Stagnant revenue performance, coupled with the job losses and a continuing relatively high unemployment rate in Silicon Valley, provide little evidence that the local economy is on the verge of a significant recovery. The uncertainty of our own economic situation continues to be exacerbated by the uncertainty of the impact of State budget balancing actions. Given these factors, the Proposed Budget presumes that the City will continue to face a sluggish economy through 2004-2005 and the economically sensitive revenues have been programmed with flat or only slight growth.

**Sales Tax**



**Santa Clara County Employment**



## ***Balancing the Budget***

In accordance with City Council direction, the 2004-2005 Proposed Operating Budget includes a plan to close a \$69.8 million funding gap in the City's General Fund. It is important to view the current proposals in the context of cuts already experienced by the organization. In balancing the 2003-2004 Adopted Budget, the City successfully closed an \$81.3 million deficit in the General Fund. In August 2003, the City Council acted to close an additional \$10.8 million funding gap resulting from State budget decisions made after the City's budget was approved. In addition, in February 2004, confronting the continuing lack of improvement in the general economy and the City's fiscal condition, the City Council directed the Administration to bring forward recommendations that would immediately eliminate 100 General Fund position vacancies. This action achieved \$6.3 million in 2004-2005 General Fund savings. The cumulative impact of these General Fund reductions totaled approximately \$170 million, or 23% of the 2004-2005 General Fund budget. Positions have similarly been reduced, from a high of 7,453 in 2001-2002 to 6,737 in this Proposed Budget.

Also, as directed by the City Council, a \$35 million Compensation/State Budget Contingency Plan has been developed to address potential impacts from the State and from labor negotiations with employee bargaining units. Once these impacts are known, the Contingency Plan will be brought forward for City Council consideration.

The 2004-2005 Proposed Operating Budget relies on a combination of ongoing cost reductions, prudent proposals for fee increases, and strategic use of reserves and one-time revenues. Additional revenues and the use of reserves account for approximately 60% of the budget balancing solutions, with expenditure reductions responsible for the balance. In developing this budget, the Administration focused City resources on vital core services and City Council priorities. In the Proposed Budget, the reductions in public safety services have been kept to a relative minimum in recognition of the City Council's expressed commitment to Public Safety as its highest priority. This has, however, resulted in more severe reductions in all other City Service Areas. Given the large cuts in non-Public Safety areas in the Proposed Budget, the largest component of the Contingency Plan is Public Safety reductions.

<b>General Fund Budget Balancing Plan</b>	
<i><b>SOURCE OF FUNDS</b></i>	<b>(In \$000s)</b>
2004-2005 Future Deficit Reserve (One-Time)	10,000
Cardroom Revenue (One-Time)	6,250
Emergency Response Fee	10,000
Business Information Management System	1,450
Sale of Surplus Property	1,000
Transfer from Other Funds	6,538
Miscellaneous	6,603
<b>Total Revenue &amp; Reserve Solutions</b>	<b>41,841</b>
<b>USE OF FUNDS</b>	
Position Eliminations/Efficiencies	(15,880)
Non-Personal/Equipment Reductions	(5,295)
Funding Shifts	(3,192)
Mayor, City Council and Appointees	(2,543)
Use of Reserves (Committed Adds)	(1,753)
Management Pay Increases/PDP	(1,822)
New Facilities (Operations & Maintenance)	1,025
Miscellaneous	1,467
<b>Total Expenditure Solutions</b>	<b>(27,993)</b>
<b>Total Balancing Solutions</b>	<b>69,834</b>

### ***Selected Budget Balancing Principles***

- ✓ *Prioritize continued provision of essential services, reviving the economy, building stronger neighborhoods, and stabilizing the City budget.*
- ✓ *Explore opportunities to establish new fees for services where appropriate, including an Emergency Response Fee.*
- ✓ *Defer new program commitments unless they stimulate the local economy and/or are funded through redeployment of resources.*
- ✓ *Recommend deferral of capital improvement projects that create negative impacts on the General Fund.*
- ✓ *Emphasize quality over quantity – do fewer things, but do them well.*
- ✓ *Work with employee bargaining groups to find ways to limit the number of employee layoffs.*

## By the Numbers

### 2004-2005 Proposed Budget

#### GENERAL FUND

Police	\$ 236,783,675
Fire	120,070,863
City-wide Expenses	83,545,144
Parks, Recreation & Neighborhood Services	52,465,886
Planning, Building & Code Enforcement	31,863,769
Transportation	31,155,357
City Administration	27,461,668
Libraries	23,002,859
General Services	17,205,038
Finance and Employee Services	13,764,931
Information Technology	13,142,483
Public Works	6,872,858
Capital Improvements	3,371,000
Economic Development	1,848,319
Transfers to Other Funds	5,867,457
Other	3,837,536
Reserves	52,973,262
<b>Total General Fund</b>	<b>\$ 725,232,105</b>

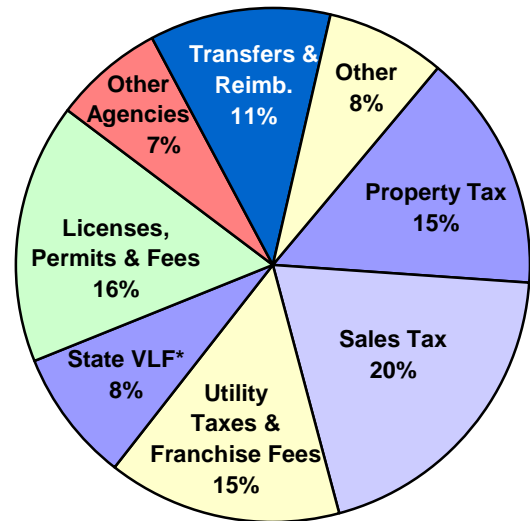
#### ENTERPRISE/SPECIAL PURPOSE FUNDS

Airport	\$ 486,876,249
Waste Water Treatment Plant & Sanitary Sewer	197,720,215
Housing	169,869,678
Waste Mgmt (Garbage Collection/Recycling)	79,861,998
Municipal Water	27,642,269
Parking	25,260,966
Community Development Block Grant	19,223,273
Storm Sewer Operations	17,621,541
Conventions and Cultural Affairs	17,233,956
Gas Tax	17,000,000
Transient Occupancy Tax	9,527,767
Other	182,212,069
<b>Total Special Purpose Funds</b>	<b>\$1,250,049,981</b>

#### CAPITAL IMPROVEMENT FUNDS

Airport	\$429,827,965
Parks and Community Facilities	122,316,854
Water Pollution Control Plant	106,448,268
Public Safety	105,599,978
Civic Center	69,235,707
Traffic	57,535,060
Library	52,551,638
Sanitary Sewers	34,873,252
Other	35,242,646
<b>Total Capital Funds</b>	<b>\$1,013,631,368</b>
<b>TOTAL ALL FUNDS</b>	<b>\$ 2,988,913,454</b>
<i>Less Transfers, Loans &amp; Contributions</i>	<i>(\$586,229,340)</i>
<b>NET CITY USE OF FUNDS</b>	<b>\$ 2,402,684,114</b>

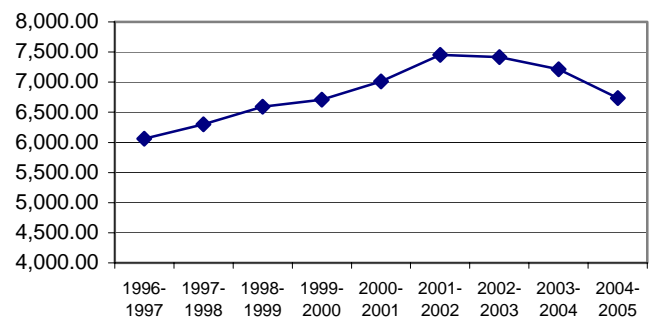
### 2004-2005 Major Sources of General Fund Revenues



\* Motor Vehicle License Fees

### Total City Positions

#### Position History



A total of 285 positions (97 vacant and 188 filled) are recommended for elimination in the 2004-2005 Proposed Budget, which is in addition to 191 positions eliminated during 2003-2004. With these reductions, the total number of City positions would drop 6.6% from 7,213 in the 2003-2004 Adopted Budget to 6,737 in this budget. An additional 265 positions are at risk as part of the Compensation/State Budget Impact Contingency Plan. If these reductions prove necessary, the staffing level would drop by an additional 4%. It is estimated that 67 layoffs would be necessary in the Proposed Budget phase.

## ***How the Proposed Budget Actions Would Impact Service Delivery***

The City of San José has organized its operations into seven City Service Areas (CSAs). Following is a brief description of the expected service delivery in 2004-2005 and the impacts of the proposed budget actions, including a description of major fee proposals.

### **PUBLIC SAFETY CSA**

#### **Expected Service Delivery in 2004-2005**

- Provide essential emergency services in a timely and effective manner.
- Maintain and strengthen school partnerships related to gang and drug activity and crisis management.
- Maintain and strengthen partnerships for identifying potential terrorism threats. Continue to put San José in the forefront of Homeland Defense in Northern California.
- Effectively investigate arson fires and aggressively pursue, apprehend, and prosecute suspects.
- Meet EMS Paramedic Agreement contractual requirements.
- Continue progress on capital improvements supported by the Public Safety bond measure that do not have significant operating and maintenance costs. The construction of new fire stations that have significant operating costs will be deferred by 12 months each.

#### **Impacts of Budget Actions**

- Implement a new Emergency Response Fee to recover the costs to provide emergency communications services to telephone subscribers. No costs associated with the actual responses of personnel to the scene of an emergency would be included in the fee.
- Eliminate specialty programs, such as Challenges and Choices, the Curfew, Safe Alternatives to Violence Education (SAVE), Tobacco Enforcement Programs, reduce support for the Truancy Abatement and Burglary Suppression (TABS), Crime Stoppers, and Neighborhood programs.
- Redeploy fire apparatus and personnel in Stations 2 and 6, and freeze 6 fire line positions.
- Eliminate administrative positions in the Police and Fire Departments.
- Reduce overtime funding for the Entertainment Zone by utilizing on-duty patrol personnel.
- Implement a Hazardous Incident Emergency Response Fee and increase various Police fees to bring the fee program closer to cost-recovery.

### **RECREATION AND CULTURAL SERVICES CSA**

#### **Expected Service Delivery in 2004-2005**

- Protect our most vulnerable customer populations, including therapeutics, seniors, and youth.
- Recreation Fee Class and Activity Program will continue to provide a wide range of learning and physical activities throughout the City as a cost-effective means to provide these opportunities.
- After-school sites throughout the City will continue to provide homework support, recreational activities, and other enrichment activities to our elementary and middle school children.
- The new Animal Care and Services facility will open to provide a new level of service to residents of San José.
- The Strong Neighborhoods Initiative (SNI) areas will continue to see progress on their top 10 priorities and in the organizational development and coalescence of the neighborhoods and leaders.
- Library branch hours will be maintained.

#### **Impacts of Budget Actions**

- Implement a new "hub" model for community centers consisting of 16 hub community centers supported by 11 satellite community centers, three neighborhood centers and a complement of 76 staff. This compares to the current system of 42 facilities and 115 staff.
- Eliminate five of 19 Safe and Accessible Integrated After School Program sites at elementary schools, affecting approximately 500 students.
- Eliminate the Bookmobile and the Disability Outreach Services, and reduce hours of service at some service points in the new Dr. Martin Luther King, Jr. Library.
- Reduce park maintenance funding.
- Eliminate the Senior Employment Resource Center, with seniors referred to the Silicon Valley Workforce Investment Network.
- Reduce funding for community-based organizations.
- Increase fees where possible, including aquatics fees and regional parks reservation fees.

## *How the Proposed Budget Actions Would Impact Service Delivery*

### **TRANSPORTATION SERVICES CSA**

#### **Expected Service Delivery in 2004-2005**

- Maintain infrastructure and facilities to ensure community safety.
- Provide viable transportation choices.
- Provide traffic safety education to elementary school children.
- Support SNI priorities with traffic calming and neighborhood improvement projects.
- Remain committed to building the transportation system to improve commutes on freeways and arterials.

#### **Impacts of Budget Actions**

- Continue the City's popular sidewalk repair program, but with a \$1,000 reimbursement limit (higher for properties with large frontages) to ensure availability of grants to the maximum number of residents.
- Reduce frequency of landscape services from every three weeks to every four weeks.
- Reduce funding for tree pruning and other services, including Our City Forest. The reduced level of funding for Our City Forest will impact the number of trees planted.
- Maintain the City's 2,300 miles of pavement, although at a reduced level that will lead to condition deterioration.
- Reduce preventative maintenance for streetlights, traffic signals and roadway markings so that resources can remain available to address safety issues, such as malfunctioning traffic signals, in a timely manner. Residents may notice that signs and markings are more faded, streetlight malfunctions take longer to be repaired, traffic signals are not functioning as efficiently, or a signal lamp may be out more often than before.
- Reduce resources for capital projects due in part to declining grant revenues and a larger transfer of funding to the General Fund as a budget balancing strategy.
- Increase penalties on 16 types of parking infractions to bring these penalties in line with other Bay Area cities while still remaining slightly below the average, except in the area of safety-related penalties, which will be somewhat higher.

### **ENVIRONMENTAL AND UTILITY SERVICES CSA**

#### **Expected Service Delivery in 2004-2005**

- Provide wastewater, garbage and recycling, storm water runoff, sanitary sewer, water and other neighborhood-based services that protect the environment, assist in the City's Strong Neighborhoods Initiative, and are necessary building blocks in the City's economic development strategy.
- Provide support for neighborhood clean-ups.
- Support Green Building efforts.

#### **Impacts of Budget Actions**

- Improve results from the Street Sweeping Program by posting parking restriction signage on an additional 40 miles in targeted areas.
- Add funding for infrastructure maintenance, rehabilitation, and replacement, primarily at the Water Pollution Control Plant and the storm sewer pump stations.
- Implement the second year of a two-year rate increase package that would raise Recycle Plus! (garbage collection) rates by 9%, bringing the program closer to cost recovery while still maintaining rates below the Countywide average for similar services. The monthly cost for yard trimmings carts would increase to \$2.50 to achieve cost recovery for this subscription service.
- Implement the third year of a three-year rate increase package for the Storm Sewer Operating Fund. Revenue generated by the 4.5% increase would be used for a modest capital improvement program.
- A 4% increase to water rates in the Municipal Water System's service area would recover the wholesale water rate increases of 7.6% and 13% levied by the City's two suppliers. Also proposed is the indexing of wholesale recycled water rates to match those charged for wholesale untreated water by the Santa Clara Valley Water District.
- After 10 years without a rate adjustment, a three-year package of 4.5% annual rate increases is proposed for the Sewer Service and Use Charge fees. These increases are necessary to address aging infrastructure needs, improve wet weather reliability at the treatment plant, and cover increased costs to operate the sewage collection and treatment systems.

## *How the Proposed Budget Actions Would Impact Service Delivery*

<b>AVIATION SERVICES CSA</b>	<b>ECONOMIC AND NEIGHBORHOOD DEVELOPMENT CSA</b>	<b>STRATEGIC SUPPORT CSA</b>
<b>Expected Service Delivery in 2004-2005</b>	<b>Expected Service Delivery in 2004-2005</b>	<b>Expected Service Delivery in 2004-2005</b>
<ul style="list-style-type: none"> <li>The Airport expansion is underway. The construction of the North Concourse is the first major project and will address federally mandated security requirements. This facility will include a permanent automated in-line explosive detection system and associated screening space.</li> <li>Limited business development resources will be focused on attracting new air service, such as the recent addition of JetBlue Airways service to New York's JFK Airport. In an increasingly global business environment, the enhancement of air service to key trade centers will be a key economic development objective.</li> <li>Continue the acoustical treatment of properties in the expanded eligibility area. Treatment of 313 properties will be completed in 2004-2005 with an additional 238 units awarded during the year.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on four strategic initiatives: develop strategic partnerships with San José State University and other universities to drive innovation and economic impact; evolve and position downtown as a unique creative and cultural center of Silicon Valley; support the start-up and growth of local businesses; and diversify the economic base and preserve/create middle-income jobs.</li> <li>Maintain excellent customer service with a predictable and timely development review process by providing seamless "one-voice" service delivery.</li> <li>Respond to emergency home repair needs of the City's lowest income residents.</li> <li>Provide attractive, clean and safe Convention facilities for over 500,000 attendees annually.</li> <li>Expand the Silicon Valley Workforce Investment Network program.</li> <li>Expand blight reduction partnerships with neighborhoods to offset reduced City resources.</li> </ul>	<ul style="list-style-type: none"> <li>Assist front-line departments in serving the community by providing recruitment, training, purchasing, technology, revenue collections, facility and fleet maintenance, protecting and investing the City's financial resources, and other support services.</li> <li>Ensure the availability and provision of safe and mechanically sound Public Safety fleet and equipment.</li> <li>Deliver capital projects in a timely and cost-effective manner.</li> </ul>
<b>Impacts of Budget Actions</b>	<b>Impacts of Budget Actions</b>	<b>Impacts of Budget Actions</b>
<ul style="list-style-type: none"> <li>Reduce contractual staff that provide assistance to passengers as they navigate through terminals; reduce curb monitoring services.</li> <li>Reduce funding for infrastructure maintenance, shuttle bus maintenance, and facilities maintenance.</li> <li>Reduce funding for Valley Transportation Authority Airport Flyer Service to bring shuttle service hours in line with both customer demand and revenue levels.</li> </ul>	<ul style="list-style-type: none"> <li>Eliminate 16 positions from Convention Center Services while maintaining customer service/satisfaction levels.</li> <li>Close a shortfall in the development fee program with a combination of position eliminations, redeployments, a phase-in of fee increases, and the use of fee reserves.</li> <li>In the areas of long-range planning and code enforcement, shift activities from proactive enforcement to a more reactive model; however, health and safety protections would not be sacrificed.</li> <li>Reduce funding for community based organizations.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce level of custodial service at City facilities; minor repairs will not be completed in a timely fashion.</li> <li>Reductions in fleet management staffing will impact the timeliness of repair and decrease fleet availability. Public safety vehicles will continue to be the priority.</li> <li>Reduce the number and variety of training courses.</li> <li>Eliminate night/swing shift technology staffing support and reduce support to departments provided during regular business hours.</li> <li>Right-size Public Works staff that supports capital projects based on the anticipated workload.</li> </ul>

## ***Capital Improvements – Investing in the City’s Infrastructure***

The City’s Capital Improvement Program (CIP) continues to bring significant improvements to San José. Over the past four years, nearly 600 projects have been completed bringing roadway improvements, enhanced recreational and neighborhood park facilities, new libraries, and better police and fire facilities. In 2004-2005, nearly 180 additional projects will be completed, including a new City Hall, two new libraries, major renovations to two community centers, numerous park and trail improvements, fire station upgrades, several new traffic signals, and utility infrastructure improvements. Major projects are also underway that support the City’s economic development goals by addressing needs associated with the City’s growth, including the expansion of the Airport, major roadway improvements and Intelligent Transportation Systems (ITS) projects that improve the flow of traffic, and the expansion of the Municipal Water System and the Sanitary Sewer System into Edenvale and North Coyote Valley.

The total dollars invested in the capital infrastructure will remain high in this next budget cycle. The 2004-2005 Proposed Capital Budget, totaling \$1.01 billion, accounts for 42% of the City’s total Proposed Budget. Over the next five years, \$3.29 billion in capital improvements are programmed. While both the one-year Capital

Budget and the five-year Capital Improvement Program (CIP) are smaller than those adopted last year, this level of investment is still one of the largest in the City’s history, continuing the “Decade of Investment” that is transforming much of the City’s infrastructure.

It is important to note that in this difficult economic environment, this level of capital funding is possible only because a number of the programs have dedicated revenue sources that are not tied directly to the economy or reflect voter-approved General Obligation Bonds that have provided an influx of resources to improve our libraries, parks and public safety facilities.

One of the major challenges in dealing with the contradiction between the availability of funding to improve our infrastructure and the daunting General Fund operating budget shortfalls has been to balance the need for the new and expanded facilities and the ability to operate and maintain these facilities. At the City Council’s direction, the administration has again brought forward specific recommendations to further defer a number of projects that would have significant General Fund operating and maintenance costs.

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### **RECOMMENDED PROJECT DEFERRALS TO REDUCE GENERAL FUND OPERATING COSTS**

- ***Library*** – Delay completion of West Side Branch from 2007-2008 to 2010-2011 and accelerate completion of the Willow Glen Branch from 2010-2011 to 2007-2008. This change would allow existing staff from the Willow Glen Branch to relocate to the Evergreen Branch upon its completion.
- ***Park and Community Facilities*** – Delay the completion dates of eight park and community center projects to minimize the operating and maintenance costs in the General Fund. These deferrals include five community centers, two park projects and one skate park.
- ***Public Safety*** – The opening dates for three new fire stations scheduled to come on-line during the next three years would be deferred by approximately 12 months each if this recommendation were approved. In addition, the relocation of one fire station is recommended for deferral to align its schedule with one of the new stations. The schedules for these stations were previously deferred in the last CIP based on the significant operating and maintenance costs associated with these facilities.

The General Fund operating and maintenance costs avoided from these actions would total \$2.3 million in 2005-2006, \$6.4 million in 2006-2007, \$3.7 million in 2007-2008, and \$1.5 million in 2008-2009.



## ***Compensation/State Budget Contingency Plan***

In addition to preparing the 2004-2005 Proposed Budget, City staff have prepared a \$35 million Compensation/State Budget Contingency Plan to address potential impacts that the State of California's final budget balancing decisions will have on City revenues and any additional funding gaps resulting from salary and benefit negotiations with the City's bargaining units.

The State remains in fiscal turmoil with a projected 2004-2005 deficit approaching \$14 billion. The Governor's proposed budget, issued in January, contains proposals that would reduce local government revenues statewide by \$1.3 billion, and would cost the City almost \$10 million. Since that time, members of the Legislature have suggested several alternative proposals, and many of these would cost the City even more than the Governor's proposal. Additional uncertainty arises from the fact that new memoranda of agreement must be negotiated with all of the City's bargaining units. The City Council has directed the administration to prepare its 2004-2005 Proposed Budget assuming no increase in salary for any City employees. However, should any or all of the employees gain salary and/or benefit increases through negotiation, or through binding arbitration in the case of the Police Officer's Association or the International Association of Firefighters, Local 230, the size of the General Fund budget gap will increase.

The Contingency Plan's recommended actions utilize as the first priority solution the remainder of the reserve set aside for this year's deficit (\$6.5 million). Before considering core public safety cutbacks, the administration recommends utilizing a portion (up to \$9.0 million) of the \$15.8 million Economic Uncertainty Reserve set aside three years ago for future economic problems. After the use of these reserves, however, the service reductions associated with the Contingency Plan are significant and will impact public safety functions that were preserved in the 2004-2005 Proposed Budget. Listed below are some of the major service impacts associated with this plan. If the full plan was required, a total of 265 positions would be eliminated (impacting approximately 217 filled positions).

- *Elimination of school crossing guard program.*
- *Response teams for Safe Schools Campus Initiative further reduced from five to four.*
- *Reduced services for Clean Slate and assistance to youth who want to leave gang life.*
- *Reduced public safety dispatch support.*
- *Reduced number of fire engine companies.*
- *Reduced number of police sworn positions in civil investigations, traffic enforcement, violent crimes and patrol.*
- *Reduced library branch service by one day per week.*

If necessary, this plan will be brought back to the City Council after the adoption of the State budget and the completion of negotiations with the various bargaining units.

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### ***Budget Hearings***

The City Council will hold several days of budget study sessions in May followed by two public hearings. The first public hearing will be held on Tuesday, May 18<sup>th</sup> at 7:00 p.m. and the second public hearing will be held on Monday, June 14<sup>th</sup> at 7:00 p.m. The study sessions and public hearings will be held in the City Hall Council Chambers, 801 North First Street, San José and are televised on the local channel 26. The final budget will be adopted on June 22<sup>nd</sup>.

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### ***Accessing the Budget***

On-line versions of the City of San José's 2004-2005 Proposed Operating and Capital budgets will be posted on the City's website at [www.sanjoseca.gov](http://www.sanjoseca.gov). These documents are also available at your public library. For more information about the City of San José Budget, please contact the City Manager's Budget Office at (408) 277-5111.